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June 12, 2008

Christine C. Gallagher, Esquire  
Federal Election Commission  
Office of General Counsel  
999 E Street, NW  
Washington, DC 20463

Re: National Republican Congressional Committee – sua sponte submission

Dear Ms. Gallagher:

Enclosed please find the summary of the National Republican Congressional Committee's investigation and findings.

Thank you for your attention to this matter. Please do not hesitate to contact us with any questions or concerns.

Respectfully,



Donald F. McGahn II  
Counsel for the National Republican  
Congressional Committee

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### **Summary of NRCC Investigation by Covington & Burling LLP**

On January 28, 2008, the National Republican Congressional Committee learned that, despite prior assurances, no audit of the NRCC's 2006 financial statements was being conducted. Shortly thereafter, the NRCC learned that its former Treasurer, Christopher Ward, appeared to have fabricated an audit report and submitted it to the NRCC's bank.

On January 30, 2008, the NRCC retained Covington and Burling LLP to conduct an internal investigation. We, in turn, retained the accounting firm PricewaterhouseCoopers LLP ("PwC") to conduct a forensic accounting investigation of the NRCC's financial records. On June 6, 2008, Covington and PwC completed the investigative work. We are now providing this summary of the investigation and its findings.

While these findings reflect the best information currently available to us, they are based on limited information. Certain documents, and key witnesses such as Ward, were not available for review or interview. Moreover, it is possible that additional losses could be identified, or other irregularities identified, as the NRCC's in-house accounting staff, which has been augmented based on our recommendation, continues to reconcile the NRCC's books and bank statements for prior years and review support for disbursements made to vendors.

#### **Purpose of the Investigation**

Our investigation had several purposes:

- To identify and quantify irregularities in the NRCC's books and records, and to determine the circumstances that led to the irregularities, to enable the NRCC to obtain, in the future, an audit of its financial statements. Such an audit will likely be necessary for the NRCC to obtain line of credit financing to support its ongoing operations.
- To enable the NRCC to correct public disclosure reports and to ensure compliance with Federal Election Commission ("FEC") reporting requirements.
- To enable the NRCC to take appropriate corrective action based on investigative findings.
- To support law enforcement in its investigation of Ward's actions.
- To determine the scope of the NRCC's loss so that the NRCC may pursue recovery of its loss through an insurance claim and/or restitution.

#### **Scope of Work**

The investigation conducted by Covington and PwC included:

- Interviews with more than two dozen current and former NRCC employees, officers, and consultants.
- Analysis of 49 bank accounts for the NRCC and various President's Dinner Committees during the period January 2001 through February 2008.

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- Analysis of selected accounting system transactions, including payments to Ward and his business entities, vendors, campaign committees, independent expenditures, payroll, and the NRCC's lines of credit.
- Analysis of available electronic data, including email records.
- Analysis of hard copy documents including bank statements, check files, vendor files, and general accounting related materials.
- Analysis of various FEC reports filed by the NRCC, the President's Dinner Committees, and other entities.
- Limited analysis of independent expenditures by the NRCC during the 2006 election cycle.

The procedures performed by PwC were designed to assist counsel in the investigation but were not designed to detect all errors, irregularities, or fraudulent activity that may exist or to determine whether value on services were actually received for payments made to third parties. Our analysis was limited to the documentation obtained from the NRCC. Neither Covington nor PwC were able to interview Mr. Ward nor obtain access to potentially relevant documents that may have been in his possession, including his personal bank records. We also did not have access to bank account information of non-NRCC committees or organizations other than the President's Dinner Committees. Some of the findings are based on the results of interviews only and were not always supported by written documentation.

In addition, the investigation was limited by the availability of bank records, NRCC records, and President's Dinner Committee records, virtually none of which were available for the period prior to 2001, and some of which were not available for more recent periods.

### Findings

#### A. Annual Audits

This investigation was prompted by the discovery that no independent audit of the NRCC's 2006 financial records had been conducted during 2007, despite repeated assurances that an audit was underway. Our investigation later determined that no independent audits of the NRCC's books and records had been conducted since an unfinished audit by the firm Deloitte & Touche LLP ("Deloitte") in Spring 2003, covering the NRCC's 2002 fiscal year.<sup>1</sup>

The investigation confirmed that bogus audit reports had been prepared by Ward and provided to the NRCC's bank for the years 2002 through 2006.

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<sup>1</sup> During the course of the investigation, Covington learned that while the 2002 audit was nearly completed, it was never finalized by Deloitte. It remains unclear at this time why the audit was not finalized after Ward became Treasurer in 2003 and took responsibility for overseeing outside audits.

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### *B. Ward's Apparent Scheme*

The essence of Ward's apparent scheme was that he used his authority to order wire transfers to direct funds through various committees and ultimately to his own accounts. Based on information that is currently available, it does not appear that anyone other than Ward knowingly participated in this scheme.

### *C. Apparently Unauthorized Payments*

The forensic accounting investigation of the NRCC's books and records conducted by PwC identified a series of apparently unauthorized payments of funds by Ward, during a period beginning in 2001 and ending in 2007, from the NRCC to outside committees whose bank accounts Ward controlled, including joint fundraising committees in which the NRCC participated. Ward then transferred these funds from the outside committees to his personal and business bank accounts. These transfers were not reported, or were reported inaccurately, by Ward on Federal Election Commission reports.

The total estimated loss to the NRCC itself is approximately \$725,000. This includes amounts transferred out of NRCC accounts to President's Dinner Committee accounts and other political committee accounts over which Ward exercised control, as well as a portion of the loss sustained by the Dinner Committee, which would otherwise have flowed to the NRCC.

### *D. Independent Expenditures*

Given the amount of NRCC funds that are spent on independent expenditures, we asked PwC to analyze independent expenditures made during the most recent complete election cycle, the 2005-2006 cycle. Because of the lack of documentation contained within the NRCC's files related to the independent expenditures, PwC was unable to conduct a comprehensive investigation of NRCC independent expenditures. While the limited review that was possible did not identify irregularities involving Ward that were related to the independent expenditures, the lack of available documentation (beyond what is required by FEC regulations) precludes our reaching any more definitive findings concerning independent expenditures.

### Recommendations

Based on our findings, we have made various recommendations to NRCC management, several of which have already been adopted:

- The NRCC should adopt a written compliance program, and should consider amending its bylaws, to formalize its accounting practices and procedures, including oversight of accounting [ongoing]. Those practices should include a requirement of two signatures for all wire transfers and a requirement that the NRCC's Oversight Committee meet with the NRCC's outside auditors annually [adopted].
- The NRCC should appoint a new, experienced Treasurer and create a new position of Chief Financial Officer, and should provide them with additional staff as needed to implement a more robust and professional accounting operation [adopted].

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- The augmented accounting staff should conduct a thorough reconciliation of the NRCC's bank statements and books [ongoing].
- The NRCC should require all outside vendors for independent expenditures to provide detailed supporting documentation on a timely basis to ensure adequate records exist for a reconciliation and verification of independent expenditures promptly after the conclusion of the election cycle. The NRCC should also consider providing additional administrative support to the independent expenditure function to maintain such records [adopted].

**Robert K. Keiner  
Scott F. Gast  
Zachary G. Parks  
Randall H. Cook**

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